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CHC Helicopter rating

NEW YORK • Moody's Investor's Service assigned a B2 rating to **CHC Helicopter Corp.'s** (FLY/TSE) proposed 125-million euro or US$120-million equivalent of seven-year senior subordinated notes. The outlook is stable, but Moody's said the ratings "are prospective to continuing leverage reduction to levels compatible with the new ratings and to ongoing up-cycle cash flow recovery in CHC's offshore oil service sector markets during 2000 and 2001." The St. John's, Nfld.-based company operates in Canada, the United Kingdom and Norway.

S&P upgrades Celestica

NEW YORK • Standard & Poor's Monday raised its ratings on **Celestica Inc.** (CLS/TSE) and Celestica International Inc. The outlook is stable. S&P said the upgrade reflects the improvement in Celestica's business risk profile and the improved financial profile of the company following a series of equity issues. Celestica's corporate credit was raised to BB+ from BB, subordinated debt to BB- from B+ and bank loan to BB+ from BB. Celestica International's corporate credit rating was increased to BB+ from BB, senior unsecured debt to BB+ (prelim) from BB (prelim) and bank loan to BB+ from BB.

Imperial Oil buyback

TORONTO • **Imperial Oil Ltd.** (IMO/TSE) plans to buy back up to 20.9 million of its common shares, or about 5% of those outstanding. Imperial Oil said the Toronto Stock Exchange has approved the normal course issuer bid, which continues an existing buyback program that expires today. The new buyback begins tomorrow and will end by June 20, 2001. Exon Mobil Corp. has advised Imperial Oil that it will acquire shares to maintain its ownership stake at 69.6%. The company acquired 12.7 million shares for a total of $424-million under its previous buyback.

Sobeys ratings

TORONTO • Dominion Bond Rating Service assigned a BBB rating to **Sobeys Inc.'s** (SBY/TSE) $500-million offer of medium-term unsecured notes. DBRS also confirmed Sobeys sinking-fund debenture at BBB. Both have a stable outlook. DBRS said the ratings reflect progress at integrating the Oshawa Group Ltd. and synergies associated with the acquisition. It said Sobeys strengths are offset by challenges, including the complete integration of Oshawa, growth from a small regional retailer to a large Canadian player and reduction of high debt levels.

Proposal to lift index limits

TORONTO • In an anticipated response to the massive 31.5% weighting of Nortel Networks Corp. in the Toronto Stock Exchange 300 index, the Ontario Securities Commission has put forth a proposal that will allow index mutual funds to exceed the current 10% limit on holdings of any one stock. However, the proposal also says that index funds would have to disclose in the simplified prospectus the risks of investing in an index that is heavily weighted in one stock. Actively managed funds that are not mandated to match the index will continue to be restricted to 10%.

Jitec listing, placement

MONTREAL • Shareholders of **Altavista Mines Inc.** (AIA/ME) have approved an agreement that was signed last May between the directors of **Jitec Inc.** and Altavista for a reverse takeover by Jitec. The new entity, Jitec inc., will be listed on the Montreal Exchange by the end of June, after obtaining final approval from the regulatory authorities. In addition to the Mines Altavista agreement, Jitec has also completed a private placement of shares at $1.25 apiece for proceeds of $9-million with Canadian and international investors.

Financial Post, with files from news services

Hedge your bets on JDS Uniphase

Double up, double down drops cost below current price

RICHARD CROFT
Options

JDS Uniphase Corp. (JDU/TSE; JDSU/NASDAQ) continues to hold the spotlight, at a time when many other big technology companies are trying to recover from recent selloffs. Not to say that JDS didn't get caught — it fell more than 40% from its highs set in March. It is the subsequent recovery that has impressed so many analysts, as the stock has retraced half of the value it lost.

Formed from the 1999 merger of JDS Fitel and Uniphase, JDS makes laser subsystems and equipment for fibre-optic telecommunications, signal processing and laser-based semiconductor wafer inspection and analysis.

Investors have been focused on the fibre-optic market over the past year. While the jury is still out on whether companies can make money through e-commerce, there is no disputing the fact that Internet use continues to grow at exponential rates, and the future of the Internet will depend on the speed at which data can flow. As the Internet becomes more sophisticated, video and graphic files will become larger and will require even more bandwidth.

Earnings for companies such as JDS are expected to grow at high double-digit rates into the foreseeable future. Current year estimates put JDS earnings at US39¢ per share. Analysts are expecting the company to earn US60¢ per share next year.

At US120, the stock is trading with some pretty optimistic expectations long term. That's better than 200 times next year's earnings, which you would have to say is expensive in any market environment.

But JDS supplies equipment to a market that has great long-term potential and one that will survive. Betting on JDS, then, is really a bet on the long-term prospects for the Internet. The real issue for investors is, at what cost?

The option market is clearly concerned, as options on JDS's Nasdaq listed stock (long-term options trade in the United States) are trading at a 77.3% implied volatility — the top 10% of all equity option volatilities.

Most interesting is how JDS Uniphase option premiums have declined from a high in the 130% range just seven weeks ago — about the time JDSU shares were in free fall.

At 77.3% implied volatility, the options make for an interesting double up, double down strategy. You could even make a case that this strategy is one of the best ways to play JDSU at current price levels, the idea being to buy some now and some later, should the short put options be assigned.

With this strategy, an investor buys 100 of the Nasdaq-listed shares (or any multiple that you are comfortable with) at US$120 each. The next step is to write one JDSU January, 2002 100 call (prefix symbol YJU) at US$59 per share and one JDS January, 2002 100 put (prefix symbol YJU) at US$29 a share.

The out-of-pocket cost for the initial 100 shares of JDSU is US$32 per share. That's US$120 for the stock less US$88 per share received from the sale of the two options (US$59 for the call, US$29 for the put). The call and the put expire in January, 2002, 18 months from now.

The JDSU January, 2002 100 call obligates you to sell your 100 initial shares of JDSU at US$100 per share any time between now and the third Friday in January, 2002. If the stock is above US$100 per share in January, 2002, the call will be exercised. At that point you simply deliver the shares to the call buyer and in the process, receive US$100 per share for the stock.

Under this best-case scenario, the JDSU January, 2002 100 put will expire worthless. Since the cost on the initial 100 shares is US$32, and since you receive US$100 per share if the call is exercised 18 months from now, you will have earned three times your original cost or, more precisely, a 212% return on the initial investment.

The JDSU January, 2002, 100 put obligates you to buy an additional 100 shares of JDSU at US$100 per share until the January, 2002 expiry. If the stock is below US$100 per share in January, 2002, you will be forced to buy another 100 shares at the US$100 per share strike price of the short put.

Under this scenario, the call will expire worthless. The initial 100 shares of JDSU cost US$32 per share and the second 100 shares — assuming you are forced to buy them — will cost US$100 per share. The average cost of the 200 shares in January, 2002 would be US$66.

With the worst-case scenario, you end up with 200 shares of JDSU at an average cost of US$66 per share, over the next 18 months. That's US$54 below the current stock price, and represents the double down element of the strategy.

Obviously with this strategy you should be comfortable with the worst-case scenario. So the question is this: Are you comfortable holding 200 shares (or any multiple of that) of JDSU at an average cost of US$66 per share?

Richard Croft is president of Croft Financial Group, a Toronto-based investment counselling firm. croftfin@aol.com

Mr. Martin changes his mind

Budget proposal on thin cap rules quietly dropped

BARRY CRITCHLEY
Off The Record

Medium-term note financings by two foreign-owned auto finance companies that occur on the same day — which cropped up last week when **Ford Credit Canada** and **Daimler-Chrysler** raised $1.1-billion of capital — are relatively rare events.

But then again, the situation in the MTN market has hardly been normal recently, thanks to changes to the so-called thin capitalization rules announced in the February budget by Paul Martin, the Finance Minister.

The changes, which affected rules that had been in place since 1972, were due to come into effect on Jan. 1, 2001.

Mr. Martin made the changes because he was not satisfied with the thin cap rules for foreign-owned Canadian issuers that wanted to issue debt and claim an interest deduction.

As Mr. Martin said in his budget: "Under the thin cap rules, the Canadian corporation may deduct interest on debt to specified non-residents to the extent that such debt does not exceed three times the amount of equity contributed by such non-residents."

Mr. Martin introduced two main changes:

- Altering the permitted 3:1 debt-equity ratio to 2:1, because the 3:1 ratio is high compared to actual industry ratios in the Canadian economy "suggesting that the three to one ratio permits inappropriately high debt levels."
- The new proposed rule "will encompass loans to a Canadian corporation from a third party that are guaranteed or secured by a specified non-resident."

That latter change was substantial as previously, third-party debt guaranteed by a foreign parent wasn't captured under the thin cap rules.

While the proposals didn't get much public reaction, the financing industry did respond — and opposed the ideas.

The Investment Dealers Association of Canada — whose members distribute the securities issued by the foreign-owned companies, and whose members (at least those with foreign parents) would be affected — lodged a complaint.

The Canadian Vehicle Manufacturers Association — the industry association in which Ford and DaimlerChrysler are members — also expressed its concerns about the proposals.

Canadian Bond Rating Service, one of the two locally owned rating agencies, issued a report on the implications of the change.

"The expansion of the definition to include the parental guarantee is causing major concerns.

"Under these circumstances, it will be very difficult for the Canadian finance subsidiaries of foreign-owned companies to borrow in Canada," it wrote in late April.

The two-page report added that "the future profitability and viability of financial subsidiaries of foreign parents in Canada could be jeopardized ... the foreign-owned subsidiaries' ability to fund operations in the domestic debt market would be severely impaired, and the need and decision to continue to maintain Canadian operations would be re-evaluated."

CBRS estimated that the proposed changes would affect 42 foreign banks, eight global investment banks, the major U.S. finance companies and U.S. and foreign automotive makers.

It estimated that the total short- and long-term paper issued by non-bank subsidiaries and other Canadian subsidiaries of foreign parents guaranteed by the parent company totalled $45-billion and $20-billion, respectively.

To put those two numbers in perspective: Total corporate short-term paper outstanding is $59-billion, while total corporate medium-term paper outstanding is $100-billion.

Mr. Martin has changed his mind.

In a recent release, he announced the "deferral" of the budget measure to "enable officials to consult broadly with a view to reaching a consensus on how best to define those guarantees that are equivalent to related party debt."

For those familiar with government talk, that means Ottawa has quietly killed the proposal. And that's good news for the foreign-owned Canadian subsidiaries that wish to issue debt in the local market.

That's just what the two auto sector finance companies did last week. They raised capital from two deals that would be considered normal under the pre-budget thin cap rules but that would not have been normal under the proposed budget changes.

Financial Post

Momentum

LEITCH
Continued from Page D1

The underwriters, led by BMO Nesbitt Burns Inc. and Yorkton Securities Inc., moved the two million shares at $26.40 each.

The stock (LTV/TSE) dipped on the news, closing down 15¢ at the offering price of $26.40.

Last week the stock began trading on the Nasdaq Stock Market in an effort to improve its visibility in the market where the audio- and video-processing technology company does half its business. The stock (LTVI/NASDAQ) lost ⅞ to close at US$18 in New York yesterday.

For most of the past year, the stock has been moving out of sync with, and often in opposition to, the benchmark Nasdaq composite index. Leitch's share price began a slide in the latter half of August, dipping to a low of $15.75 on Nov. 30 even as the Nasdaq was climbing higher.

The shares made a late rally at the beginning of the year, and that momentum has continued. The stock actually moved higher during the downturn of March and April and has continued to gain.

Leitch has been able to tap into the equity well at a time when public offerings have slowed, often forcing investment bankers to attach sweeteners to get deals done.

For example, yesterday **Haemacure Corp.**, the Montreal-based biotech company, closed its public offering of more than six million units to raise $13-million. The underwriting team, led by Dloughy Investments Inc. and Loewen, Ondaatje, McCutcheon Ltd., created units made up of one share and half a share-purchase warrant. Each full warrant allows the holder to acquire another Haemacure share.

The shares were sold unbundled in the Leitch offering. Although not registered in the United States, the communiques will be eligible for distribution in that country, and one source said that some of the deal will end up south of the border.

The latest cash infusion comes after a fourth quarter in which the company had negative cash flows from operations of $1.2-million, compared with positive cash flows from operations of $12.6-million in the year-earlier period. Cash and cash equivalents fell to $15.4-million at fiscal year-end from $29.2-million a year ago.

Financial Post

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